

Performance as at 31st July 2022

	1 Month	3 Months	1 Year	3 Years p.a.	5 Years p.a.	Inception p.a. ³
Fund ¹	6.9%	-7.6%	6.6%	17.6%	12.3%	13.9%
Benchmark ²	11.4%	-9.9%	-10.9%	2.5%	7.3%	7.1%
Difference	-4.5%	2.3%	17.5%	15.0%	5.0%	6.9%
Microcap Index ³	14.3%	-14.1%	3.1%	15.2%	14.0%	12.1%

¹ Sphera Australian Microcap Fund. Returns of the Fund are net of applicable fees, costs and taxes.

² Benchmark is the S&P/ASX Small Ordinaries Accumulation Index.

³ Inception date is 16 May 2016. Past performance is not a reliable indicator of future performance. All p.a. returns are annualised.

a Microcap Index refers to S&P/ASX Emerging Companies Accumulation Index.



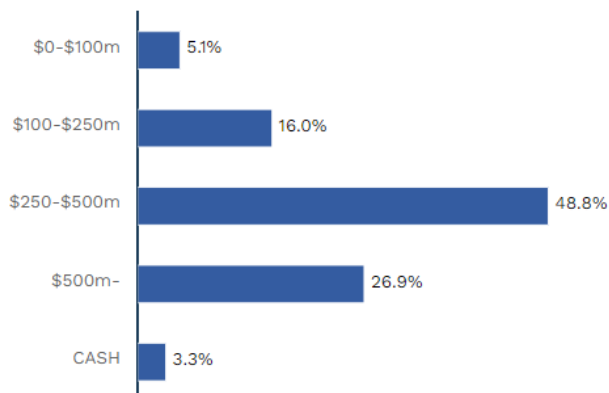
Overall Commentary

The Sphera Australian Microcap Fund returned 6.9% (after fees) during the month of June, underperforming the ASX Small Ordinaries Accumulation Index by 4.5%.

Top 5 Holdings

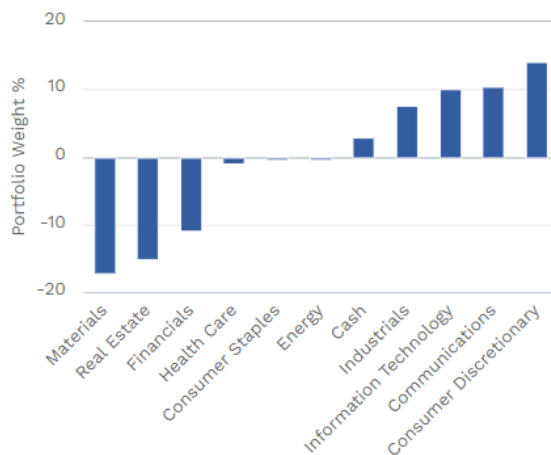
Company Name	% Portfolio
Michael Hill International Limited	5.8
Vista Group International Limited	5.4
MaxiTRANS Industries Limited	5.1
Ht&E Limited	5.1
Regis Healthcare Limited	5.0
Top 5	26.3

Market Cap Bands



Source: Sphera Asset Management

Active Sector Exposure



Source: Sphera Asset Management

Markets

The domestic small and mid-cap indices rallied strongly over July with both indices up over 10% for the month. The biggest driver of markets continues to be inflationary expectations and the flow through effects to long term (10-year bond) discount rates. Although inflation prints around the world continued to show year-on-year growth, there is an increasing expectation that the rate of change in inflation will likely slow. This makes some sense to us given a large part of the inflation base has been driven by energy prices and industrial commodities (Copper, Aluminium and Iron Ore to name the majors). Wage pressures however continue to rise as organised labour pushes for at least no real wage decreases in annual wage negotiations. Wages tend to lag actual inflation especially during volatile inflationary periods such as those we have just witnessed.

Whilst Central Bankers were doing their darndest to create inflation, having released the monster they are trying vainly to re-bottle it or at least contain it to target levels. It's not super surprising then that the Australian Government has announced a wide-ranging review of the RBA's objectives, the interaction of monetary policy with fiscal and macroprudential policy, including during times of crises. This is no small review. The Fed and ECB had the sense to do their own reviews without waiting for respective Governments to figure out the need. All have made some fairly drastic policy errors during the Covid crisis. The purchasing of 10-year government bonds by all must rank up there as one of the least necessary and most expensive unconventional acts. Having said that, the decline in 10-year bonds from around 3.65% at the end of June to circa 3% by the end of July, has started to chase away the bears. Over the month the best performing sectors were technology, healthcare and industrials with energy and consumer staples being the laggards. This was a turbulent rebound with investors picking up the pieces to put risk on. BNPL player ZIP Co (Z1P.ASX), Megaport (MP1.ASX) and Life 360 (360.ASX) were amongst the top gainers for the month, none of whom currently make earnings or positive cash flow.

Major Contributors for the Month

Due to the strong appreciation in the index the most significant attributions came from stocks not owned by the mandate that either declined in absolute terms or didn't rise as significantly as the index. Contributors here included Champion Iron (CIA.ASX) down 11%, NIB Holdings (NHF.ASX) off 2% and Elders (ELD.ASX) down 10.5% over the month. Positive contributions from stocks owned included:

Universal Stores (UNI.ASX) – rose 19% over the month, recouping some of its losses over the past few months. With a backdrop of rising interest rates and high energy prices it's been easy to sell consumer discretionary stocks. Shooting first and asking questions later, however, can sometimes be a poor strategy. UNI remains one of the few genuine growth stories in retailing in Australia. Having opened 13 stores since their IPO they now have 78 stores and have officially launched their second brand – Perfect Stranger. Perfect Stranger began life as an own brand offered within the Universal Store and has proven successful enough to warrant its own roll out. The remaining roll out of Universal and the potential for Perfect Stranger means UNI could almost double its current footprint of stores without having to go offshore – an option that remains on the table. Trading on a forecast 9x EV/EBIT with a net cash balance sheet, we don't think the shares are on a demanding valuation for the opportunity ahead of this brand and management team.

Macphersons (MCP.ASX) – rallied 25% over July after having been sold off heavily over the previous month. MCP announced the commencement of its strategic alliance with Chemist Warehouse (CWG) whereby CWG has taken a 9.9% stake in MCP in exchange for increasing the MCP product range available in the CWG stores. In addition, MCP has been appointed distributor of the brands CWG including Wagners vitamins and Bondi Protein to other retailers around Australia. MCP has limited gearing and trades on around 7x our forecast EV/EBIT.

Praemium (PPS.ASX) – rebounded strongly over July rising 46%. PPS is one of the leading independent wealth platforms providing a tax and an administration platform to Financial Advisers in Australia. PPS has just exited its UK wealth platform having agreed to sell this to Morningstar and returned a portion of this cash to investors via a special 5c dividend. PPS stock went ex-entitlement to the dividend over July. PPS bought Powerwrap two years ago which has given the group scale. The integration of Powerwrap was made easier by the fact it already used the same base technology as PPS. It remains a possibility that PPS could be acquired by another platform player looking to increase their own scale (Netwealth made such a bid in November 2021) and the logic to a merger still exists.

Major Detractors for the Month

NZME (NZM.ASX) – declined 9% in July as media names remained under some pressure from Investors. NZM we believe is in one of the best positions the business has been in for some time having de-gearred its balance sheet organically over the past 3 years. NZM is undertaking a buyback and remains materially undervalued in our opinion based on its transition to more digital revenue streams and its appealing valuation at under 5x EV/EBIT.

SkyTV (SKT.NZ) – declined modestly (5%) over July on modest news flow. SKT has confirmed their new sky box rollout will be somewhat delayed largely due to global supply chain issues and that they are in discussion with World Rugby to expand their Rugby rights to international games. Having abandoned acquisition talks, SKT remains very cheap on multiples trading on around 5.5x EV/EBIT with a healthy net cash balance sheet.

Nitro Software (NTO.ASX) – fell 14% over July. When you are out of favour, you are out of favour. For NTO this month it was ‘damned if they do and damned if they don’t’. Earlier in the year NTO surprised us and the market by announcing another year of heavy investment in Sales and Marketing and R&D expenditure thus pushing out their cashflow break-even date in exchange for continued strong sales growth targets. The market promptly dumped the shares. Upon deliberation the company re-examined the current market environment (including a likely more challenging macro economy) and announced a pull back on business investment with an attendant reduction in sales growth but substantially bought forward the cashflow break-even date – a decision that we broadly support. The market reacted by promptly selling the shares – again! There is no pleasing some. We remain positive on the longer-term outlook for NTO despite it winning the short-term unpopularity contest. NTO continues to win large new corporates to its PDF productivity platform including P&G, Novartis, Nestle and UGL. Client retention rate remains high at around 94% and they arguably have one of the leading e-signing and e-ID businesses within their portfolio (Connective acquisition made in Europe). Typically, SAAS businesses are favoured investments by investors and trade on high multiples (on both an EV/EBIT and EV/Sales basis) on account of the business’ strength. NTO currently trades on less than 3x EV/Sales. NTO’s revenue will grow over time and margins should reach industry averages of 20-30%. Projecting forward a few years, it’s possible to argue that you are buying NTO on mid-single digit EV/EBIT. In time, this may retrospectively be viewed as a highly lucrative entry point into the stock.

Outlook & Strategy

Market volatility is a reaction to the unusual global times we find ourselves in. The world markets are coming to terms with an end to huge government stimulus programs and record levels of QE intervention from Central Banks. Throw extremely high short term inflation numbers into the mix and the market gyrations almost make some sense. Although the yield on Australian 10-year bonds have compressed materially over the past 6 weeks (from around 4.2% at their peak in mid-June to around 3.0% at the end of July) we believe we have entered an era of higher rates and higher inflation than that of the past decade. This will mean valuation centric investors and those paying heed to fundamentals are more likely to outperform. The market has already rotated out of aggressively cash burning businesses and we still expect to see some further rationalisation as wary investors remain reluctant to throw additional capital at these companies.

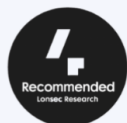
Platform Availability List

If a fund is not available on your preferred platform, please contact us. Please check with your platform for minimum investment requirements and fees.

Aegis	FNZ Group	MLC Navigator	PowerWrap
Asgard	HUB24	MLC Wrap	Praemium
BT Panorama	IOOF eXpand	Netwealth	Premium Choice
DPM	Macquarie Wrap	OneVue	Wealth02 uXchange

Sphera Australian Microcap Fund	
Benchmark	S&P/ASX Small Ordinaries Accumulation Index
Investment Objective	The Fund aims to outperform the S&P/ASX Small Ordinaries Accumulation Index over the medium to long term
Investing Universe	Primarily listed companies outside the top ASX 250 listed companies by market capitalisation and companies listed on the New Zealand Stock Exchange with an equivalent market capitalisation
Holdings	Generally 20-65 stocks
Distributions	Annually
Fees	1.35% p.a. management fee & 20% performance fee of the Fund's excess return versus its benchmark, net of the management fee
Cash	Up to 20% cash, typically 5% - 10%
Expected Turnover	20% - 40%
Style	Long only
APIR	WHT0066AU
Minimum Initial Investment	\$25,000

Fund Ratings



Further Information

For more information, please contact Pinnacle Investment Management Limited on 1300 010 311 or email distribution@pinnacleinvestment.com

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Link to the [Product Disclosure Statement](#)

Link to the [Target Market Determination](#)

For historic TMD's please contact Pinnacle client service Phone 1300 010 311 or Email service@pinnacleinvestment.com

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